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MEMORANDUM FOR: RECORD

The attached paper on Indonesia was done in
response to request [redacted]

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3 Unnumbered copies went to [redacted] DDI on 31
March 67

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On 3 April:

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31 March 1967

INDONESIA

1. The Suharto regime, in which the army holds the preponderant power position, appears capable of maintaining internal stability for the foreseeable future, i.e., for the next year or so. It will retain its anti-Communist complexion and will persist in its efforts to destroy the remnants of the Indonesian Communist Party. Its efforts to improve the economy are likely to progress although perhaps not at the pace or with the effectiveness that either the regime or the general public has hoped. Indonesia will continue to espouse a foreign policy of nonalignment and to strive for increased Indonesian regional influence.

Political Demise of Sukarno

2. By a decree of 12 March 1967, the Indonesian Congress in effect endorsed the final turnover of power by President Sukarno to General Suharto, prohibited Sukarno from engaging in political activity until after the next general elections, and appointed Suharto acting president. Suharto was installed in his new post the same day.

3. There is no indication that Sukarno will be able to make a political comeback. Apparently he will be permitted to remain in Indonesia, probably in West Java where the political atmosphere is pro-regime and the army commander is strongly anti-Sukarno. The regime is not likely to let him visit, and certainly not live, in East or Central Java where he had his greatest popularity. Sukarno probably will not be brought to trial for his past activities as demanded by students and other activists. Although the 12 March decree requires a judicial "settlement" of Sukarno's past activities, it leaves its implementation to Suharto, who has publicly opposed a trial as politically unwise and prejudicial to national

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unity. Most of the perquisites of office have been withdrawn from Sukarno, and presumably he is under close surveillance.

Suharto

4. In addition to his position as acting president, General Suharto apparently plans, for the immediate future, to retain his post as commander of the army. He is also chairman of the cabinet presidium and "first minister" for defense and security; in this latter capacity he directly controls the four armed services and the ministry for demobilization and veterans affairs. He has emerged over the past year and a half as a strong and resourceful, although cautious, leader. He is presently strongly entrenched as the country's foremost leader and faces no significant opposition among either military or civilian elements.

5. Suharto has made no effort to disguise the fact that the army is the major political force in Indonesia today and that his own political support stems chiefly from the army. Since October 1965, however, he has consistently worked to develop a united team of the four armed forces (army, navy, air, and police), and to avoid an exacerbation of inter-service rivalries. Although he has not been totally successful, he has, over the months, denied to Sukarno the effective exploitation of pro-Sukarno units, chiefly in the Marine Corps and the police, and has repeatedly extracted effective pledges of loyalty from all service commanders.

Army's Role

6. The army will continue to hold the preponderant power position in Indonesia for the foreseeable future and will staff significant posts at all levels and in all sectors of government. The army holds 6 of 24 cabinet portfolios, and representatives of the other armed services hold another 6. Army officers are sprinkled liberally throughout the cabinet departmental staffs and through the government-controlled agricultural and industrial complex. Army

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officers are governors of 15 of Indonesia's 25 provinces, and the 17 army territorial commanders exert considerable authority throughout provincial administrative systems regardless of whether the local governor is military or civilian. Suharto has relied not only on military officers in the regular chain of command and in the cabinet, but has also called for assistance from an informal group of high-ranking generals.

Civilian Role

7. General Suharto is sensitive to the charge of creeping militarism and appears to be making an effort to maintain a military-civilian partnership--albeit with the military the senior partner--which is considerably more than a facade. The most influential cabinet minister next to Suharto himself is Foreign Minister Adam Malik. He appears to have good working relations with Suharto and seems likely to remain in a key position. Half of the cabinet members are civilians, and the parliament and congress, both predominantly civilian, have enjoyed greater authority and freedom of expression since mid-1966 than at any time in the last six years. Suharto himself leans strongly upon civilian advisers on most economic matters.

8. Civilian leaders and organization, however, are eager to reassert themselves after years of Sukarno's "guided democracy," and are fretful under what they regard as a new version of "guided democracy" even though the "new order" is anti-Communist and more relaxed in its controls toward non-Communists than the previous regime. Civilians particularly represent the growing pervasiveness of military influence, but they have little capability to translate their feelings into significant political action. The two major parties in Indonesia are the Moslem Nahdatul Ulama (NU) and the Indonesian National Party (PNI). The former is generally regarded as "new order" although it has a long background of corruption and opportunism. The PNI remained pro-Sukarno throughout the postcoup period and only reluctantly dissociated itself from him when his political demise appeared inevitable. Of the six

small parties the most active is the Catholic Party. The other five are two Moslem parties, a proarmy party, a so-called "national Communist" party, and the Christian (Protestant) Party.

9. A development of the postcoup period was the organization of "action fronts" which sometimes call themselves collectively the "Generation of '66." They provided the most dynamic support to the army's anti-Communist and anti-Sukarno campaign and in some instances urged more extreme action than Suharto was willing to take. The most active of these groups have been the two student fronts, KAMI and KAPPI, composed respectively of university and high school age youth, and the scholars' front, KASI. Although the students have returned to their classes, some of their leaders and those of KASI remain politically active and about 30 of them have been appointed to parliament. The action front leaders are likely to remain the most dynamic element within the civilian contingent of the Indonesian Government.

10. An early crystallization of civilian forces into effective coalitions is not likely. The probable pattern will be one of shifting alliances, with the NU and PNI occasionally working together against the military and just as often pitted against each other while the smaller parties change positions in opportunistic fashion. The action fronts probably will be in a swing position between the parties and the military depending upon the issue at hand. The instability of the civilian forces, however, will be within the context of a stable army-supported regime and therefore will not endanger national equilibrium.

11. Suharto is encouraging legislative action in preparation for elections, now slated to be held no later than mid-1968. Speculation is already growing, however, that this schedule will not be met.

Communism

12. The outlawed Communist Party (PKI) remains fragmented and under continuing military pressure. Its decline since October 1965 probably has not yet reached its lowest point. The party is presumed to retain a significant following in East and Central Java, but the PKI is not likely to attempt a test of its strength in those areas. Its policy apparently is to be as inconspicuous as possible and to focus on infiltration of other organizations.

The Economy

13. Suharto recognizes that the deteriorated economy is now the nation's major problem. He is aware that basic remedies require considerable time, but he also realizes that obvious improvements--even if superficial ones--are a political necessity within the next year or two.

14. With the help of the International Monetary Fund (IMF), Indonesia formulated an economic stabilization plan which it began to implement in October 1966. Among the moves called for by the plan are a balanced budget, rigid credit policies, a realistic and simple exchange rate, increased tax collection, revision of the banking system, and increased participation in the economy of private capital, both foreign and domestic. The most recent steps taken are intended to increase export incentive, reduce smuggling, and liberalize foreign exchange controls. A foreign investment law has also been passed which improves the climate for foreign interests. International Monetary Fund advisers, while gratified at some of the results of the stabilization program, have cautioned that financial stability cannot be achieved unless all economic measures are implemented with greater effectiveness.

15. In view of its lack of foreign reserves, Indonesia has been and remains unable to meet payments, other than cash obligations, on its international debt of approximately \$2.4 billion, and in 1966 requested some form of debt relief from its creditors. In a series of meetings in 1966 and 1967,

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Western creditors agreed to reschedule payments on debts already in arrears and on certain categories of loans and export credits falling due through December 1967. Separate bilateral meetings with the Soviet Union, Indonesia's largest creditor, also resulted in a rescheduling of debt payments.

16. The IMF has stated that debt relief will be insufficient to assist the Indonesian economy to advance and has suggested Indonesia's need for assistance during CY 1967 at \$200 million. Western nations are currently considering the extent of their assistance. No new credits appear likely to be granted by the Soviet Union in CY 1967.

Foreign Policy

17. The reorientation of Indonesian foreign policy from an anti-West, pro-Peking line to one of nonalignment may be considered to have been completed in September 1966 when Indonesia re-entered the United Nations. In practice, Indonesian foreign relations today are oriented toward the non-Communist world although Indonesia preserves correct relations with the Soviet Union and other bloc nations. Relations with Communist China remain unfriendly. The major current issue between the two countries is Indonesia's treatment of Overseas Chinese. Peking charges prejudicial and often illegal treatment of the Chinese minority; Djakarta charges Peking with interference in internal Indonesian affairs. The Indonesian-Chinese relationship, however, is low-keyed and is not a major issue at this time in either capital.

18. Indonesia continues to move toward the regularization of relations with Malaysia. At Malaysia's invitation, Indonesia will send observers to the April elections in the Malaysian state of Sabah. Major Sabah parties have already reaffirmed their desire to remain in Malaysia, and their anticipated electoral victory will fulfill Indonesia's final condition --"reaffirmation"--for ending confrontation. Indonesia reportedly plans to resume diplomatic relations with Malaysia within the next few months.

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19. Indonesia recognized Singapore last June, but an exchange of diplomatic representatives was postponed so that Singapore and Malaysia could resume relations with Indonesia at the same time. Meanwhile Indonesia and Singapore have moved to regularize their trade relations, but a return to the preconfrontation level of trade is not expected.

20. Indonesia retains its interest in expanded regional influence, but the Suharto regime is pursuing this policy within the context of friendly relations rather than within the former one of military expansionism. Foreign Minister Adam Malik is exploring the prospects for a four-power cultural and economic organization which would be composed of Indonesia, Malaysia, the Philippines, and Thailand. Malik is opposed to a regional military pact and has publicly corrected statements from within the military establishment which have implied Indonesian interest in a regional defense arrangement. Indonesia has resumed active participation in regional UN activities and holds a directorship in the Asian Development Bank.

21. Indonesia has reduced its diplomatic representation in Africa, however, and for the time being has abandoned its pretensions to Afro-Asian leadership.